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C O N F I D E N T I A L SECTION 01 OF 05 BRUSSELS 06091

USEEC

PARIS FOR OECD SHAPE FOR POLAD

E.O. 11652: N/A
TAGS: EIND, ETRD, EGEN, EEC
SUBJECT: EC INDUSTRIAL POLICY UNDER DAVIGNON

REF: 76 EC BRUSSELS A-349

1. SUMMARY: AGAINST A BACKGROUND OF ECONOMIC CRISIS,
INDUSTRIAL POLICY HAS BECOME ONE OF THE MOST ACTIVE
AREAS OF EC POLICY-MAKING. THE DRIVING FORCE BEHIND
THIS ACTIVITY HAS BEEN THE EC COMMISSIONER FOR INDUS-
TRIAL AFFAIRS, ETIENNE DAVIGNON, WHO HAS MANAGED TO
OVERCOME RETICENCE IN CERTAIN MEMBER STATES TO PERMIT
EC-WIDE INDUSTRIAL POLICY INITIATIVES AND HAS SUCCEEDED
IN OBTAINING GOVERNMENT, BUSINESS, AND LABOR COOPERA-
TION ON BEHALF OF COMMISSION ACTIVITY IN THIS AREA. THUS
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FAR HIS BASIC CONCERN HAS BEEN THE STRUCTURAL ADAPTATION
OF EUROPEAN INDUSTRIES. DAVIGNON IS A PRAGMATIST AND
APPEARS TO BE SEEKING THE PATH OF MAXIMUM IMPACT WITH
LEAST MEMBER STATE RESISTANCE. THIS HAS MEANT CARTEL-
LIKE ORGANIZATION FOR THE STEEL, TEXTILE, AND SHIPBUILD-
ING INDUSTRIES. IT COULD IN THE FUTURE LEAD TO SELECTIVE
INVESTMENT INCENTIVES IN OTHER INDUSTRIES SUCH AS PAPER,

SHOES, CHEMICALS AND AUTOS, AND TO PREFERENTIAL PURCHASING POLICIES IN KEY INDUSTRIES LIKE ELECTRONICS AND AIRCRAFT. DAVIGNON.S POLICIES ARE LIKELY TO HAVE CONSIDERABLY MORE IMPACT ON US INTERESTS THAN THOSE OF HIS PREDECESSORS, BOTH DIRECTLY WHERE THEY REPRESENT DISCRIMINATION IN FAVOR OF CERTAIN EC FIRMS, AND INDIRECTLY IN THEIR IMPACT ON THE LIBERAL ECONOMIC SYSTEM. THERE HAS BEEN LITTLE ACTUAL RESTRUCTURING SO FAR, BUT A NEW WILLINGNESS OF MEMBER STATES TO PARTICIPATE IN A MORE ACTIVE EC INDUSTRIAL POLICY COMBINED WITH DAVIGNON.S DYNAMISM AND THE CLIMATE OF ECONOMIC CRISIS SUGGESTS THAT THE TREND TOWARDS A MORE ACTIVE INDUSTRIAL POLICY WILL CONTINUE.

END SUMMARY.

2. OBSTACLES TO AN INDUSTRIAL POLICY -

THE HISTORY OF INDUSTRIAL POLICY IN THE EC HAS NOT BEEN ILLUSTRIOUS. IT HAS BEEN MARKED BY FAILURE AND FRUSTRATION OF THOSE WHO HOPED THAT THE COMMISSION WOULD LEAD THE WAY TO EUROPEAN INDUSTRIES WITH A EUROPEAN-WIDE PRODUCTION BASE. SEVERAL PROBLEMS HAVE HITHERTO COMBINED TO MAKE INDUSTRIAL POLICY MORE A STATE OF MIND THAN A VIABLE POLICY CONCEPT.

3. FIRST AMONG THESE HAS BEEN A LACK OF CONSENSUS AMONG MEMBER STATES, FIRST OF ALL ON A NEED FOR INDUSTRIAL POLICY BEYOND THAT REQUIRED BY A MINIMUM FUNCTIONING OF A

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COMMON MARKET, OR, IN THE FEW CASES WHERE THE NEED IS RECOGNIZED, ON WHAT FORM EUROPEAN INDUSTRIAL POLICY SHOULD TAKE. THE EC COUNCIL MUST APPROVE NEARLY ALL COMMISSION INITIATIVES, AND GIVEN THE LACK OF MEMBER STATE CONSENSUS, THE COMMISSION HAS BEEN IN A WEAK POSITION TO PROPOSE INITIATIVES SINCE, APART FROM STEEL, IT HAS NO SPECIFIC TREATY MANDATE FOR INDUSTRIAL POLICY OR FUNDS WITH WHICH TO OPERATE IT.

4. USUALLY THOSE MEMBER STATES WHICH ARE MOST INTERVENTIONIST IN THEIR OWN DOMESTIC MATTERS ARE MOST FAVORABLE TO THE IDEA OF A EUROPEAN INDUSTRIAL POLICY -- BUT NOT ALWAYS. OFTEN INDIVIDUAL MEMBER STATES CONFUSE THE IDEA OF A EUROPEAN CAR OR AIRCRAFT INDUSTRY, FOR EXAMPLE, WITH "OUR INDUSTRY" SERVING A EUROPEAN MARKET AND EVEN THOSE MEMBER STATES WHICH COULD BE EXPECTED TO SUPPORT A COMMISSION PROPOSAL ON AN IDEOLOGICAL LEVEL MIGHT VOTE AGAINST IT FOR REASONS OF BUREAUCRATIC JEALOUSY. GENERALLY SPEAKING, THE FRENCH HAVE BEEN MOST FAVORABLE TOWARDS AN EC INDUSTRIAL POLICY, PREFERABLY ONE BASED ON THEIR OWN RELATIVELY DEVELOPED IDEAS IN THIS FIELD. ITALY AND IRELAND ARE IN THIS POSITION, BUT TO A LESSER EXTENT. BENELUX

COUNTRIES OFTEN FAVOR COMMISSION INITIATIVES AS A MEANS OF EUROPE-BUILDING. THE UK USUALLY RESISTS WHEN STRONG NATIONAL INTERESTS ARE INVOLVED. DENMARK AND THE FRG, AS CHAMPIONS OF A LIBERAL AND PRIVATE ECONOMY, ARE USUALLY THE LEAST POSITIVELY DISPOSED.

5. ANOTHER PROBLEM IS THAT IN CONTRAST TO AREAS SUCH AS REGIONAL POLICY, AGRICULTURAL POLICY, OR THE EUROPEAN INVESTMENT BANK, AN INDUSTRIAL POLICY OFFERS FEW PRIZES TO MEMBER STATES OR SPECIAL INTERESTS GROUPS. AS A RESULT, THERE IS LITTLE FEELING THAT INDUSTRIAL POLICY PROMISES TANGIBLE BENEFITS WHICH OTHERWISE MIGHT BE UNATTAINABLE.

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USEEC, PARIS FOR OECD, SHAPE FOR POLAD

6. OPPOSITION ALSO IS INSTITUTIONALIZED WITHIN THE COMMISSION. OFTEN THE GOALS OF DG III (INDUSTRIAL AFFAIRS) AND DG IV (COMPETITION) SEEM IN CONFLICT. AN ACTIVIST INDUSTRIAL POLICY QUICKLY RUNS INTO THE WATCHDOG VIGILANCE OF COMPETITION OFFICIALS. THIS DOES NOT MEAN THAT THE ONE IS ALWAYS STYMIED BY THE OTHER. BUT IT CAN PRODUCE PARADOXES, SUCH AS THE SIMULTANEOUS EXISTENCE OF PROPOSALS TO FOSTER MERGERS (DG III) AND TO EXERCISE GREATER CONTROL OVER MERGERS (DG IV).

7. PRE-DAVIGNON INDUSTRIAL POLICY -

THE FIRST YEARS OF INDUSTRIAL POLICY FOCUSED ON THE CREATION OF A FAVORABLE CLIMATE FOR INDUSTRY AND ELIMINATION OF THOSE BARRIERS WHICH BLOCKED THE DEVELOPMENT OF A TRUE COMMON MARKET. THE HIGHEST PRIORITIES WERE SUCH NON-GLAMOROUS ACTIVITIES AS ELIMINATION OF TECHNICAL BARRIERS TO TRADE IN THE FORM OF STANDARDS OR NATIONAL LEGISLATION
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WHICH NEEDED HARMONIZATION, ELIMINATION OF CARTELS, FREEDOM OF ESTABLISHMENT AND REGULATION OF SUBSIDIES TO INDUSTRIES. IN THE OPINION OF BOTH THE MEMBER STATES AND COMMISSION OFFICIALS, THE QUESTION OF INDUSTRIAL STRUCTURE CAME AS A LAST PRIORITY. IN SPITE OF THESE DIFFICULTIES, THERE HAS BEEN NOTABLE, IF UNSPECTACULAR, PROGRESS IN THESE AREAS. THE COMMISSION HAS GENERALLY HAD A RELATIVELY EASY TIME WINNING COUNCIL APPROVAL BECAUSE OF THE TECHNICAL, NON-POLITICAL NATURE OF THE WORK. THE COMMISSION HAS ALSO RECEIVED HELP FROM THE COURT OF JUSTICE WHICH HAS ALMOST ALWAYS UPHELD THE COMMISSION VIEW IN THESE MATTERS. FOR DAVIGNON, HOWEVER, THESE HIGHLY TECHNICAL SUBJECTS HOLD LITTLE INTEREST. EC OFFICIALS EXPECT THESE ACTIVITIES TO CONTINUE UNDER THEIR OWN SPEED WITH NO MORE THAN A TOKEN PUSH FROM DAVIGNON.

8. IN THE EARLY 1970.S, INDUSTRIAL POLICY TOOK ON A MORE ACTIVIST AND IDEOLOGICAL FLAVOR. THE COMMISSIONER RESPONSIBLE FOR INDUSTRIAL AFFAIRS AT THAT TIME, SPINELLI, AN ITALIAN SOCIALIST, ADVOCATED SEVERAL AMBITIOUS PROGRAMS WHICH WOULD HAVE GIVEN THE COMMISSION AN ACTIVE ROLE IN SECTORS SUCH AS AIRCRAFT CONSTRUCTION AND DATA PROCESSING. THE CONCEPT OF "THE AMERICAN CHALLENGE" HELD SOME INFLUENCE AND MANY OF THE COMMISSION PROPOSALS APPEARED TO BE DESIGNED TO DISCRIMINATE AGAINST SUBSIDIARIES OF US-BASED COMPANIES AND TO FOSTER EUROPEAN CHAMPIONS. FEW MEMBER STATES WERE WILLING TO SUPPORT SPINELLI'S VIEWS AND THE PROPOSALS FROM THAT TIME WERE DRASTICALLY WATERED DOWN OR LEFT TO GATHER DUST.

9. CURRENT STATUS OF MAJOR INDUSTRIAL POLICY PROGRAMS - THE APPEARANCE OF A DYNAMIC AND COMPETENT LEADER TOGETHER WITH A SHIFT IN MEMBER STATE ATTITUDES, LARGELY DUE TO THE
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ECONOMIC CRISIS, HAVE MADE INDUSTRIAL POLICY ONE OF THE HOTTEST AREAS IN COMMUNITY AFFAIRS. THE MAJOR DIFFERENCE UNDER DAVIGNON HAS BEEN DIRECT COMMISSION INVOLVEMENT IN

SECTORS. THE CURRENT STATUS OF THIS ACTIVITY IS AS FOL-
LOWS:

STEEL: 77 BRUSSELS 12628; 77 BRUSSELS 18656;
BRUSSELS 714; BRUSSELS 5517

DAVIGNON.S INHERITANCE FROM THE PREVIOUS COMMISSION WHICH
APPROVED A STRATEGY CALLING FOR STRUCTURAL ADJUSTMENT AND
IMPROVED INDUSTRY REVENUES THROUGH MINIMUM AND REFERENCE
PRICES AND VOLUNTARY DELIVERY TARGETS. DAVIGNON HAS TIGHT-
ENED UP ORIGINAL PROPOSALS AND ADDED ACCELERATED ANTI-
DUMPING SYSTEMS AND BILATERAL AGREEMENTS WITH MAJOR SUP-
PLIERS (CONTAINING PRICE AND, IN SOME CASES, QUANTITATIVE
AGREEMENTS). THE COMMISSION WILL SHORTLY ANNOUNCE THE CAP-
ACITY FIGURES WHICH WILL GUIDE ITS RESTRUCTURING EFFORTS.

TEXTILES: 77 BRUSSELS 19030; BRUSSELS 3521

- A SERIES OF COMPLEX BILATERAL AGREEMENTS WITH SUPPLIERS.
COMMITMENTS FROM MAJOR SYNTHETIC FIBER PRODUCERS TO CUT
BACK CAPACITY BY 25 PERCENT OVER THE NEXT FIVE YEARS.
- NO PLANS YET FOR RESTRUCTURING THE GENERAL INDUSTRY.

SHIPBUILDING: 77 BRUSSELS 15375; 77 BRUSSELS 15772;
BRUSSELS 2526

- COUNCIL-APPROVED GUIDELINES FOR STATE AIDS TO THE SECTOR.
- A PROPOSED GENERAL STRATEGY FOR STRUCTURAL ADJUSTMENT
BASED ON LARGE CAPACITY CUTS.
- STRONG DIPLOMATIC PRESSURE ON THE JAPANESE TO RAISE
PRICES AND LIMIT THEIR SHARE OF NEW ORDERS.

SHOES: 77 BRUSSELS 14970; BRUSSELS 3064

- PRESSURE ON SOUTH KOREA AND HONG KONG TO HOLD DOWN THEIR
EXPORTS TO THE EC. PROPOSALS FOR RESEARCH PROJECTS ON FOOT-
WEAR TECHNOLOGY.

PAPER: 77 BRUSSELS 9796; 77 BRUSSELS 9909;
BRUSSELS 3839

- SLOWDOWN ON THE RATE OF LIBERALIZATION FOR TRADE WITH

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USEEC, PARIS FOR OECD, SHAPE FOR POLAD

EFTA COUNTRIES.

- R&D PROPOSALS ON PULP AND PAPER TECHNOLOGY.

- REFORESTATION PROPOSALS.

AUTOMOBILES: 77 EC-A39; 77 EC-A 129; BRUSSELS 3430

- TALKS WITH PRODUCERS CONCERNING PROBLEMS THE INDUSTRY
WILL LIKELY FACE IN THE 1980.S.

- SPONSORSHIP OF RESEARCH PROJECTS ON ELECTRIC-POWERED
VEHICLES.

- DEVELOPMENT OF OVER THIRTY TECHNICAL STANDARDS RELAT-
ING TO CAR DESIGN, SAFETY, AND PERFORMANCE.

- ENCOURAGEMENT OF TRANS-NATIONAL CO-PRODUCTION AND
MERGERS.

AIRCRAFT: 77 BRUSSELS 1812; 77 BRUSSELS 8836;

77 BRUSSELS 5720; BRUSSELS 2624

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COUNCIL APPROVAL OF CALL FOR MEMBER STATE CONCERTATION
ON FUTURE PLANS FOR CIVIL AIRCRAFT.

- COUNCIL APPROVAL OF R&D PROGRAMS FOR WING DESIGN AND
HELICOPTERS.

- EFFORTS TO APPLY COMMON EC DUTY TO PURCHASES OF
MILITARY AIRCRAFT AND PARTS.

DATA PROCESSING: 76 EC BRUSSELS A-479;

77 BRUSSELS 17118

- PROPOSALS FOR FINANCIAL ASSISTANCE TO DATA PROCESSING
COMPANIES INTERESTED IN JOINT PROJECTS DEEMED OF INTEREST
TO THE EUROPEAN INDUSTRY.

- COUNCIL APPROVAL OF A VARIETY OF RESEARCH STUDIES ON
DATA PROCESSING APPLICATIONS.

TELECOMMUNICATIONS: 77 EC-A 305; 77 EC A-353;

77 BRUSSELS 848

- PROGRESS TOWARDS 1978 INAUGURATION OF EURONET, AN
EC-WIDE DATA-SHARING NETWORK.

- PLANS TO BRING SECTOR UNDER THE PROVISIONS OF THE EC
GOVERNMENT PROCUREMENT DIRECTIVE.

OIL-REFINING: BRUSSELS 2004

- NOT PART OF DAVIGNON.S BRIEF, BUT THE COMMISSION HAS
PROPOSED TO DEAL WITH OVERCAPACITY PROBLEM IN THE EC, BY
DISCOURAGING NEW CAPACITY INVESTMENT AND GRANTING
FINANCIAL AIDS FOR CONVERSION UNITS.

10. DAVIGNON.S POLICY -

DAVIGNON HAS ACHIEVED THE MOST SUCCESS IN THE STEEL
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INDUSTRY WHERE THE PARIS TREATY GIVES HIM CONSIDERABLE
POWERS INDEPENDENT OF THE COUNCIL, AND IN TEXTILES WHERE
HE SUCCESSFULLY PREVENTED A PROLIFERATION OF UNILATERAL
PROTECTIONIST MEASURES BY MEMBER STATES. ALTHOUGH HE
HAS NOT YET IMPLEMENTED FORMAL RESTRUCTURING PROGRAMS,
RESTRUCTURING WILL STILL TAKE PLACE THROUGH A COMBINATION
OF DAVIGNON.S CATALYTIC INFLUENCE AND NATURAL ATTRITION
DUE TO LOW RATES OF RETURN ON INVESTMENT AND NON-REPLACE-
MENT OF WORKERS WHO RETIRE OR QUIT. THIS IS CERTAINLY
ALREADY HAPPENING IN THE STEEL INDUSTRY WHERE, IN FACT,
THE COMMISSION HAS LONG HAD THE INSTRUMENTS IN PLACE
TO RUN A RESTRUCTURING PROGRAM AND IS ALREADY USING THEM
TO ENCOURAGE MERGERS AND MODERNIZING INVESTMENT, RESTRICT
CAPACITY AND AID WORKER ADJUSTMENT.

DAVIGNON.S TYPICAL APPROACH HAS BEEN TO DRAMATIZE PUB-
LICLY THE SITUATION IN AN INDUSTRY WHILE PROPOSING
GENERAL STEPS TOWARDS SOLUTION OF ITS PROBLEMS. THESE
STEPS USUALLY INVOLVE TRADE MEASURES WHICH ARE PRESENTED
AS REGRETTABLE BUT NECESSARY IN ORDER TO OBTAIN A
BREATHING SPACE FOR THE INDUSTRY. AT THIS STAGE HE HAS
MADE A PRACTICE OF SEEKING A POLITICAL ENDORSEMENT FROM
THE COUNCIL. THIS TACTIC HAS WORKED TO ENSURE STRONG
SUPPORT FROM MEMBER STATES WITH PROTECTIONIST TENDEN-
CIES WHILE AVOIDING, THROUGH GENERALITY, OPPOSITION
TO COMMISSION INTERVENTION IN THE RESTRUCTURING PROCESS.

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USEEC, PARIS FOR OECD, SHAPE FOR POLAD

THE TOUCHSTONE OF THE DAVIGNON POLICY HAS BEEN PRAGMATISM. HE HAS APPROACHED HIS ROLE WITH NO PRIOR SUBSTANTIVE OR IDEOLOGICAL COMMITMENT TO WHAT SHOULD BE DONE AND THIS HAS GENERALLY WORKED IN HIS FAVOR. CRITICS SAY, HOWEVER, THAT HE IS SOMETIMES TOO SUPERFICIAL AND THAT HIS HABIT OF REACTING ON REFLEX HAS MADE LIFE DIFFICULT FOR MORE REFLECTIVE AND METHODICAL COMMISSION EUROCRATS WHO WORRY THAT THIS APPROACH MAY LEAD TO ERRORS WHICH WILL DO LONG-TERM DAMAGE TO THE COMMISSION'S EFFORTS.

DAVIGNON CLAIMS HE HAS NO DESIRE TO CARTELIZE EUROPEAN INDUSTRY. HE FEELS THAT SECTORAL POLICIES ARE ONLY APPROPRIATE FOR A FEW INDUSTRIES SUCH AS STEEL, SHIPBUILDING AND TEXTILES WHERE ALL PLANTS ARE SUFFERING LOSSES AND WHERE RADICAL ACTION IS NEEDED IF MEMBER COUNTRIES ARE TO AVOID BEGGAR THY NEIGHBOR POLICIES
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TO PROTECT BASIC STRATEGIC INDUSTRIES. STRUCTURAL ADJUSTMENT SHOULD FOLLOW A DIFFERENT METHOD IN OTHER INDUSTRIES, SUCH AS SHOES, CHEMICALS, PAPER, AUTOMOBILES, ETC. WHERE PROBLEMS EXIST BUT MANY PLANTS REMAIN COMPETITIVE. DAVIGNON REPORTEDLY FEELS COMMISSION ACTION IN THESE INDUSTRIES SHOULD IN THE FUTURE BE TARGETED ON THE MOST PRODUCTIVE PLANTS IN THE INDUSTRIES AND MAKE EXTENSIVE USE OF INTEREST SUBSIDIES SUCH AS THOSE AVAILABLE (UP TO 30 MILLION DOLLARS) FOR THE STEEL, TEXTILE AND SHIPBUILDING SECTORS, AND OF LOAN FUNDS SUCH AS THE SO-CALLED

ORTOLI FACILITY. THUS THE COMMISSION'S ROLE WOULD BE LESS INTERVENTIONIST AND DESIGNED MAINLY TO HELP THE MARKET.

COMMISSION OFFICIALS ADMIT THAT THE REASON FOR THIS TACK IS THAT IT WOULD BE MORE ACCEPTABLE TO MEMBER STATES. EXCEPTIONS TO THIS STRATEGY WOULD BE INDUSTRIES WHERE EITHER THE MARKET IS LARGELY GOVERNMENTAL, E.G. AIRCRAFT, OR WHERE ENORMOUS RESEARCH AND DEVELOPMENT COSTS DEMAND A COMMUNITY-WIDE EFFORT, I.E. ELECTRONICS.

DAVIGNON HAS SHOWN INCREASING SENSITIVITY TO THE CHARGE THAT HE IS NOT PAYING ADEQUATE ATTENTION TO THOSE INDUSTRIES WHICH SHOULD SUPPLY THE NEW JOBS IN THE NEXT DECADE. HIS AIDES PREDICT, HOWEVER, THAT ONCE THE MORE DEFENSIVE PROGRAMS, I.E. STEEL, TEXTILES, SHIPBUILDING, ARE UNDER WAY, HE WILL TACKLE THE GROWTH AREAS OF THE ECONOMY AND NEW AREAS WHERE THE COMMISSION COULD PLAY A ROLE. ONE SUCH AREA IS THE MILITARY EQUIPMENT INDUSTRY. DAVIGNON HAS REPEATEDLY STRESSED THE NEED FOR A PROCUREMENT POLICY WHICH WOULD ALLOW RECIPROCITY BETWEEN THE US AND EUROPEAN ALLIES IN SALES OF MILITARY EQUIPMENT. HE HAS SPECIFICALLY UNDERSCORED THE NEED FOR AN EC ROLE IN REGARD TO AIRCRAFT AND ELECTRONICS PRODUCTION, SINCE THE OVERLAP BETWEEN

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CIVILIAN AND MILITARY USE IS CONSIDERABLE.

11. OUTLOOK AND IMPACT ON US/EC RELATIONS - WHEN THE COMMISSION FIRST BECAME ACTIVE IN THE INDUSTRIAL POLICY AREA IN THE EARLY 1970.S, THE US EXPRESSED CONCERN THAT COMMISSION INITIATIVES MIGHT DISCRIMINATE AGAINST US COMPANIES. SINCE THEN, THE LEVEL OF CONCERN HAS DECLINED. WHEN DAVIGNON TOOK OVER AS COMMISSIONER FOR INDUSTRIAL POLICY, HE AND HIS AIDES ASSURED THE THE MISSION THAT THE CHANGE FROM THE MORE IDEOLOGICAL SPINELLI APPROACH WOULD BE TO OUR LIKING. BUT IN AN EFFORT TO BUY TIME FOR HIS RESTRUCTURING EFFORTS, HE HAS APPLIED PROTECTIONIST BAND AIDS TO SAVE EC INDUSTRIES. THESE ACTIONS HAVE HAD CONSIDERABLY MORE IMPACT ON US INTERESTS THAN THE GRANDIOSE, BUT INEFFECTUAL, PROPOSALS UNDER SPINELLI.

12. DAVIGNON FAVORS A LIBERAL ECONOMY BY INCLINATION. BUT TO A DEGREE THIS CONFLICTS WITH HIS ACTIVIST NATURE. DAVIGNON'S DYNAMISM AND PREDILECTION FOR FOREIGN AFFAIRS HAVE COMBINED TO MAGNIFY HIS PERSONAL INFLUENCE AND THE IMPORTANCE OF THE DG-III BEAURACRACY IN OVERALL EC AFFAIRS. MANY OF THE MORE COMPETENT TRADE POLICY OFFICIALS IN DG I (EXTERNAL AFFAIRS) ARE IN PRACTICE REPORTING DIRECTLY TO DAVIGNON. WITHOUT THE NORMAL BALANCE OF BUREAUCRATIC FORCES

BETWEEN DG I AND DG III, PROTECTIVE INTERESTS TEND TO HAVE
FREER PLAY.

13. MANY COMMUNITY OFFICIALS, INCLUDING DAVIGNON, FAVOR THE
CREATION OF STRONG COMPETITION FOR THE US IN SEVERAL INDUS-
TRIES. THIS WOULD MORE THAN LIKELY INVOLVE, IF NOT DIRECT
DISCRIMINATION AGAINST US COMPETITORS, AT LEAST SOME FORM

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FAVORITISM FOR EUROPEAN FIRMS. MOREOVER, THERE ARE MANY
DOSSIERS STILL PENDING BEFORE THE COMMISSION AND THE COUN-
CIL ON INDUSTRIAL POLICY IN A VARIETY OF AREAS OTHER THAN
SECTORAL POLICIES. THE EC IS SLOWLY MOVING TOWARDS CONSEN-
SUS ON THESE ISSUES. INsofar AS THEY INVOLVE CONSTRUCTION
OF A UNIFIED MARKET, US COMPANIES WILL BENEFIT AT LEAST AS
MUCH AS ANY OTHERS FROM A BIGGER FREER MARKET. HOWEVER,
NEW AREAS OF ACTIVITY, SUCH AS ENVIRONMENTAL STANDARDS OR
COMPANY LAW OFTEN INVOLVE REGULATIONS WHICH ARE LIKELY TO
BE RESTRICTIVE.

14. THE MAJOR ROADBLOCK FOR A COMMUNITY INDUSTRIAL POLICY
HAS BEEN THE ABSENCE OF CONSENSUS THAT SUCH A POLICY IS
NEEDED. THIS IS CHANGING DUE TO A GROWING ACCEPTANCE OF
THE DESIRABILITY OR NEED FOR THE EC TO PLAY A WIDER ROLE
IN ECONOMIC POLICY AND TO RECOGNITION THAT NOT ALL PROB-
LEMS CAN BE SOLVED NATIONALLY. ONE PROOF OF THIS SHIFT IN
ATTITUDE IS THE ESTABLISHMENT OF INSTITUTIONAL LINKS
BETWEEN SENIOR ECONOMIC POLICY-MAKERS IN THE MEMBER STATES

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AND COMMISSION INDUSTRIAL POLICY OFFICIALS. A FEW YEARS AGO SUCH CONTACTS WOULD HAVE BEEN CONSIDERED A WASTE OF TIME. ANOTHER INDICATOR IS THE ROLE PLAYED BY THE FRG, TRADITIONAL OPPONENT OF THE COMMISSION ON INDUSTRIAL POLICY MATTERS. COMMISSION OFFICIALS SAY THAT THE FRG IS STILL DIFFICULT TO CONVINCE BUT THAT ONCE CONVINCED, PLAYS AN ACTIVE AND CONSTRUCTIVE ROLE IN THE FORMULATION OF COMMISSION POLICY.

15. IN THE LONG RUN PROGRESS IN INDUSTRIAL POLICY IS LIKELY TO TURN ON PROGRESS TOWARDS ECONOMIC AND MONETARY UNION BUT FOR THE SHORT TERM IT APPEARS TO HAVE SOME SELF-SUSTAINING MOMENTUM. THE QUESTION IS: HOW FAST WILL IT GO? FROM HERE IT LOOKS AS THOUGH IT CAN GO AS FAST AS DAVIGNON AND THE ECONOMIC CRISIS CAN CARRY IT. WITHOUT BOTH OF THESE, THE PACE WOULD BE SLOWER.

16. AS TO COPING WITH THIS NEW THRUST IN EC POLICY, THE FOCUS, TO A GREAT EXTENT MUST BE ON DAVIGNON HIMSELF. FUNDAMENTALLY, DAVIGNON BELIEVES IN THE VALUE OF A LIBERAL OPEN TRADING SYSTEM, BUT HE HAS BEEN PREPARED TO MAKE COMPROMISES WITH PROTECTIONIST FORCES WHEN HE IS CONVINCED EITHER THAT THE COMMON MARKET IS THREATENED BY IRRESISTIBLE PRESSURE FOR UNILATERAL ACTION IN ONE OR MORE MEMBER STATES OR THAT, IN THE ABSENCE OF A LITTLE PROTECTIONISM NOW, THERE WILL INEVITABLY BE MORE LATER. IT IS THIS DISPOSITION WHICH HAS COME TO CHARACTERIZE DAVIGNON'S "PRAGMATISM". IT IS A RISKY GAME, OF WHICH HE COULD RAPIDLY LOSE CONTROL, BUT IN THE CURRENT CLIMATE OF CRISIS IN EUROPE, HE HAS ARGUED WITH SOME JUSTIFICATION THAT IT IS THE ONLY GAME HE CAN PLAY. IN TEXTILES AND STEEL, WE HAVE ALREADY SEEN HOW HIS APPROACH CAN IMPACT ON US INTERESTS. WHILE DAVIGNON IS A MAN OF ENORMOUS SELF-CONFIDENCE AND CONVICTION THAT WHAT HE IS

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DOING IS BOTH NECESSARY AND RIGHT, WE HAVE ALSO SEEN THAT HE IS NOT INFLEXIBLE AND WILL TRY TO ADJUST HIS STRATEGY, OR AT LEAST THE PRESENTATIONAL ASPECTS OF HIS POLICIES, WHEN WE HAVE A GOOD CASE TO MAKE. WE HAVE ALSO SEEN OVER THE PAST 15 MONTHS THAT, WHILE GENERAL APPEALS FOR OPEN TRADE OR MORE LIBERAL POLICIES MAKE LITTLE OR NO IMPRESSION ON HIM, SPECIFIC SUGGESTIONS, CAREFULLY REASONS AND TARGETED TO OUR COMMON INTERESTS IN MINIMIZING ADVERSE CONSEQUENCES OF PARTICULAR PRO-

POSALS, CAN PRODUCE RESULTS WITH WHICH WE CAN LIVE. WE
BELIEVE THIS APPROACH REMAINS THE KEY TO DEALING WITH
DAVIGNON ON THIS SPECTRUM OF ISSUES, AND FOR ADVANCING
OR PROTECTING US INTERESTS AFFECTED BY HIS POLICIES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, INDUSTRY, ECONOMIC CONDITIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
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Disposition Remarks:
Document Number: 1978BRUSSE06091
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Document Unique ID: 00
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Format: TEL
From: BRUSSELS EEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780320/aaaaaqiu.tel
Line Count: 607
Litigation Code IDs:
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Litigation History:
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Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
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Reference: 76 EC BRUSSELS A-349
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Secure: OPEN
Status: NATIVE
Subject: EC INDUSTRIAL POLICY UNDER DAVIGNON
TAGS: EIND, ETRD, EGEN, BE, EEC
To: STATE GENEVA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/7c5981bc-c288-dd11-92da-001cc4696bcc
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